RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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June 3, DJIA 912.26; PTI 841; A-D Ratio −20.12
June 10, DJIA 910.79; PTI 852; A-D Ratio −19.59

IT AIN'T EASY: You know, you really need a sense of humor and some kind of faith in this business. The sense of humor is for purposes of your own survival ("as long as I can still laugh, I guess I'm OK"). And the faith has to do with a firm belief that "come what may, the Almighty definitely intends that the world will survive."

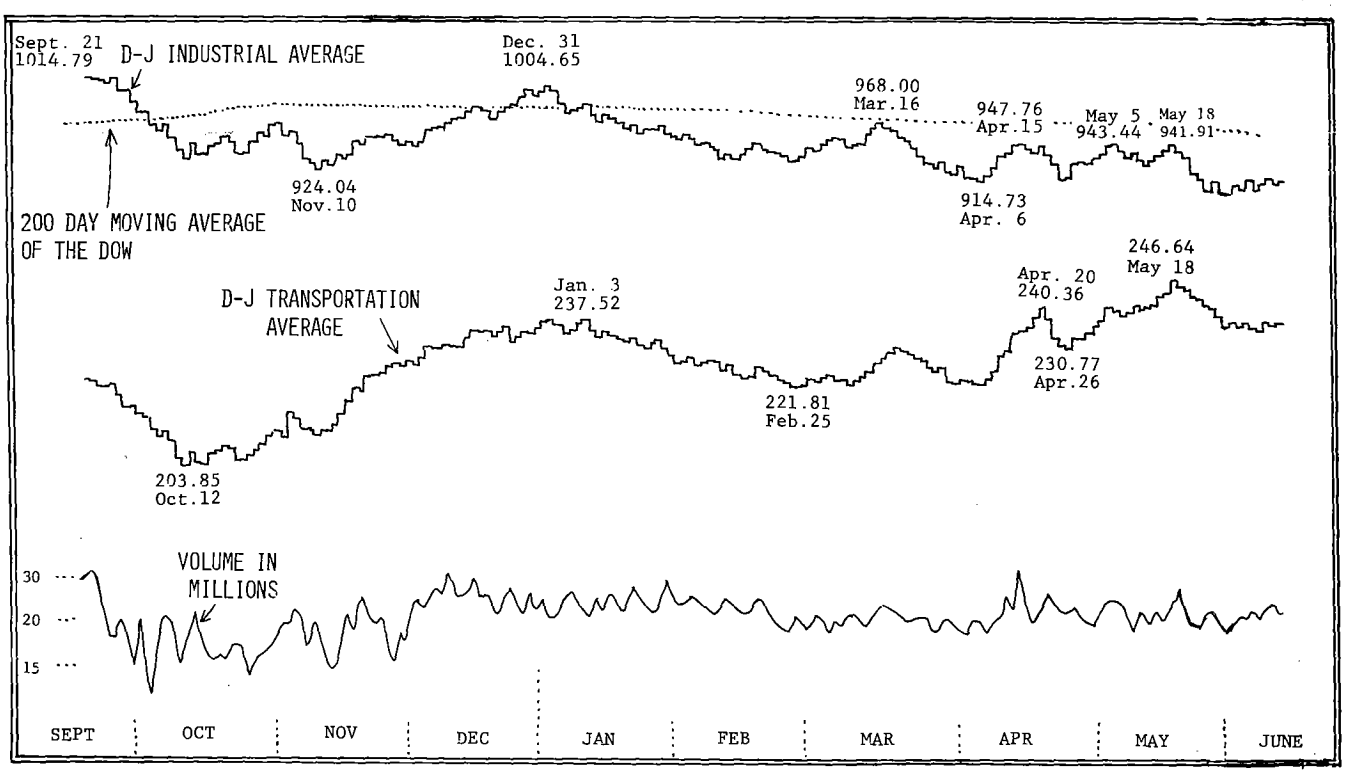
At any rate, I sit here reading the many investment services that come in each week (a few are bi-monthly or monthly), and the fact is that by and large, these advisories are written by very intelligent men. Yet, the disagreement at this juncture is enough to jar one's brains. For instance, Tom Holt (*Holt Investment Advisory*) is bearish on the market and the economy, but bullish on gold. *Joe Granville*, an old friend, is bearish on the stock market and believes it's topped out. The excellent *Professional Tape Reader* has been bearish for many months and thinks the market could go considerably lower. Yet Charles LaLoggia (*CML Investment Letter*) is bullish and writing about "a major buying opportunity." The *Consensus of Insiders* (and they possess a good track record) is also bullish, and waiting for a buy spot. On the other hand, Bill Bretz, who writes *Drew's Odd Lot Studies* is quite bearish. Dysart (*Trendway's*) is about neutral now, after being bullish all year. *Jim Dines* is quite bearish (except for golds) and I could go on and on with this parade of conflicting professional opinions.

Now I'm not saying that the analysts and advisories always agree, but the divergence of opinion today is fantastic. And maybe that's what the market is reflecting as the Dow labors around its 1976-77 low area, the Transports mill about in their bull market peak area and the Utilities and bonds flirt with their highs. The whole investment scene has degenerated into a sort of surrealistic nightmare, with no clearly delineated trends, no agreement among the "experts," and no absolutely clear course of action for the investor.

To make matters even more difficult, you can make a case either way regarding the very solvency of the US and the free world. The total of all debt in the US has now risen to $3.5 trillion, up from $3 trillion in 1975. This is equal to $15,400 of debt for every man, woman and child in the nation. Thus, public and private debt is currently increasing at a rate of about 10.5% per year, a rate that is clearly unsustainable.

When one turns to the foreign picture, it is, if anything, even worse. The "developing nations" have built up a total debt of around $180 billion. They are going to need a "bail out" shortly, if they are even going to pay the interest on their debts. Furthermore, US banks own about $75 billion of this debt, up $42 billion in the last three years. Nobody really knows how the whole financial mish-mass will work out, except perhaps US Secretary of the Treasury Blumenthal, who recently stated, "I see no evidence that the system as a whole is overloaded....The problems—and there are problems— are found in a few individual nations which are approaching or have reached the boundaries of prudence."

It all reminds me of the investor who calls his broker and asks, "Charlie, where's US Steel going?" The confused broker replies, "Where's it going, I don't even know where it's been!" Which is



about the way an honest man might respond if asked, "Where do you think the world is going in 1977 and 1978."

Nevertheless, we are fortunate enough to have access to the greatest financial barometer ever devised by man. We can use this barometer as an aid in planning our investments, our business and our personal lives. The barometer goes under the name of "the stock averages." And the action of the averages is made up of **all that everybody knows regarding anything that can affect business, finance or corporate profits.** There are, however, two problems connected with our barometer: (1) We have to **learn how to read** the instrument correctly. It does not offer automatic forecasts. (2) The barometer does not provide a reading at every moment. There are times when it simply says, "No forecast available."

"Not good enough," you complain, "Not perfection." And in that you are correct. But I will state that on the day some genius invents the perfect stock market barometer, on that day we will witness the end of the stock exchange. For this same individual will shortly gather up all the money on Wall Street and elsewhere and bust the market forever.

Lacking anything like perfection, I elect to publish approximately 36 Letters a year. The reason I do is that I can then emphasize or re-emphasize my opinion–or I can change my opinion, or I can correct an erroneous opinion. All of which leads to the question, what is my opinion about the market **now**?

(1) I believe a primary bull market started in late-1974. I think that bull market is still in force.

(2) I think the bull market "may" have formed (or is now forming) a secondary top. The top represents an area of tremendous supply, and the market may have to go lower before it can chew through that supply.

(3) I stated in the last Letter (and I will repeat) that I believe we are in the second (psychological) phase of the bull market, perhaps winding up that phase. The second phase is the most *deceptive* phase of any bull market. Therefore today's monumental confusion about "what's happening" is par for the course; it should be expected.

A subscriber stopped me in the street this morning and said, "Russell, I have to plan almost a year ahead. I'm following what you've written, and it's OK, but I need to plan. What have you got for a man in my situation?"

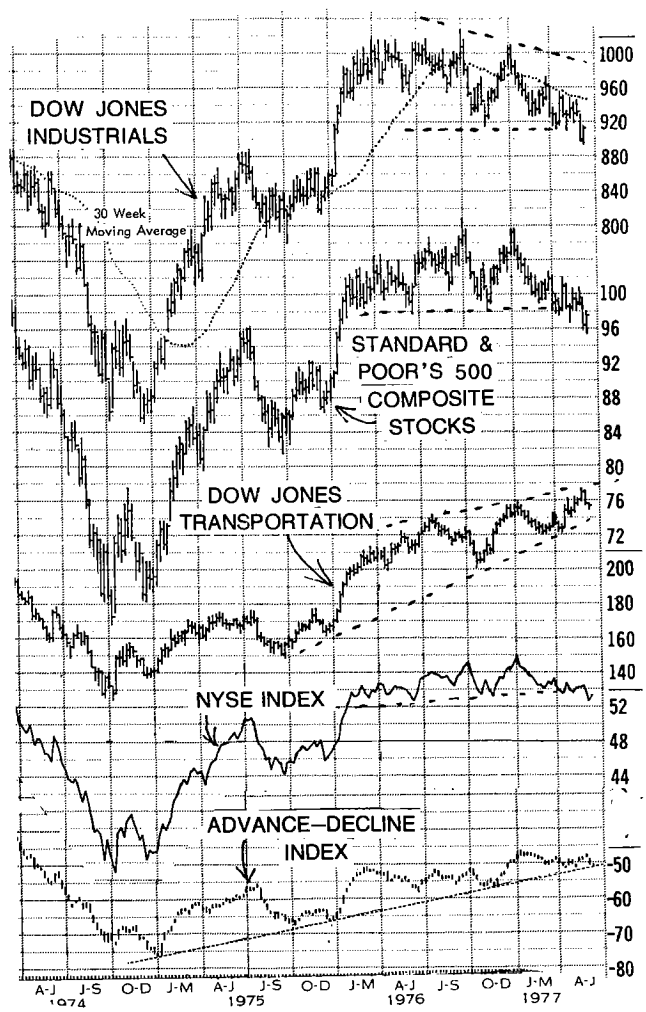
And my answer was that I think the best policy at this time is *yield-oriented* vehicles. This means bonds, bond funds, T-bills, (for short-term) and even some cash. I don't think new stock purchases here are warranted yet. Now there is nothing wrong with sitting tight while collecting fat yields on taxable or tax-exempt bonds. It would be a different story if AAA bonds were currently yielding say 3.5%, but right now Government bonds are yielding 7.7%, Barron's 20-Bond Average is yielding 8.8%, any number of closed end bond funds are yielding close to 9%, and T-bills are yielding 5.06%. Thus, the investor who choses to "sit and wait" should hardly be under any great strain. After all, over the last 10 years most money managers have not averaged 8% a year on investments.

It's a strange thing, but a man in his own business, say a drugstore owner, won't go out and speculate on drugs or rubber gloves or Crest toothpaste–unless he thinks he's being offered a great buy, an oustanding value. But the same man becomes an utter fool in the stock market; he can't resist the siren call of perpetual trading, of always being in the market. The result is that he loses his shirt on Wall Street. He then has to turn his attention back to his drug store so he can arduously accumulate some more capital to lose on Wall Street.

NEAR-TERM: Since last September, the Industrial Average has been weak while the Transports have been a bastian of strength. In fact, as late as May 18 the Transports set a new bull market **high** (see page 1 chart) of 246.64. A few days later, Industrials recorded a bull market **low** of 898.66 (May 31).

Ordinarily, markets (such as this one) which are weak through the first part of the year, attempt to form some kind of base by Spring, preparatory to a Summer rally. On that basis, it would seem logical to expect a rally from this area (from around the June lows). And indeed such a rally may have started already. But there are problems, and the problems are such that I am not advising my subscribers to do any new buying of common stocks at this time.

I am including these weekly charts, courtesy of CMI, 1133 N. North Camano Dr., Camano Island, WA 98292. The chart shows us five indicator profiles, and they are , unfortunately, profiles of tops and cracking trendlines. All of this indicates technical deterioration, and it suggests that although rallies will materialize, the odds are that any rallies will be halted by a massive supply of stocks waiting to be sold.



The indices on this weekly chart show us that the "average stock" has been in a sideways pattern ever since early-1976. For the past 16 months investors have been unwilling to "sponsor" a major bull movement. So I ask myself, "If they have not been willing to step in and buy on a massive scale so far, why should they do so now?" And the answer I come up with is that "They probably will not buy heavily at this time."

Hints: Two interesting but perhaps unnoticed events occurred last week, and they are worth discussing. On June 6 (see page 1 chart) Industrials dropped to a low of 898.66, Transports to 235.73. A little rally ensued, followed by a new decline. On the decline **Industrials held** while Transports slipped to another minor low of 235.05. This was a case of Industrials looking stronger than Transports, *the first such instance in many months!*

The second hint was this: on June 7 the D-J Utility Average rallied to a new bull market high above its May 18 peak of 111.93. On the face of it, this is a very constructive development, since the Utility Average tends to have lead characteristics.

The market did rally starting on June 7. I feel that the Industrial non-confirmation and the Utility high presents us with a good "test case." If the market cannot at least produce an **impressive** rally here, it must be viewed as still quite weak.

I want to conclude this section with a positive thought, and it is this. There is always a disposition during a bull market to demand action and profits. When a long, frustrating period appears, the neophyte becomes discouraged, even angry, and he is apt to write off the primary bull trend as a "fraud," and "non-existent hope." It is important to avoid these attitudes.

In fact, one of the major reasons why I wanted my subscribers very low on stocks over the past few months is so we would keep an open mind on the situation. A man who is riding his stocks down and sustaining paper losses is a man who is fearful and suffering from psychological paralysis. I hate to have my subscribers in that position, and I'll always try to avoid it.

From the longer term viewpoint, what we have probably been seeing during most of 1976 and 1977 is the bull market backing off, correcting, winding down the excesses of 1975 and early-1976 (when, if you remember, the Dow climbed 74% in less than a year-and-a-half). Somewhere ahead lies an outstanding "buy spot," a place where the risk-reward will be heavily in favor of buying stocks. That area could come shortly, it could arrive in a month or it could come as late as September or October.

I would rather come in a little late (but with more confidence) on a major advance than too early (and too nervous). I have seen many investors jump the gun and buy, just before the final market swoon that leads to a major bottom. They run, they lose their investment "cool," and they aren't ready to buy again when the real thing comes around.

DIVERGENCE IN THE AVERAGES: It is normal for the two Averages, and I am referring to the D-J Industrials and Transportation Averages, to move up or down **together, as if locked in gear.** Anytime the Averages part company, it is termed by Dow Theorists a "divergence." Divergences are not too common, and extended divergences, such as the kind we have been seeing over the past eight months, are very **rare** indeed.

I have probably written more about the divergence in the D-J Averages (which began last September) than any man alive. And I probably attach more significance to the divergences than any other analyst. The fact is that divergences are a definite part of Dow Theory, and they do tend to be important in the light of Wall Street history.

In fact, in modern history (say, starting from 1920) there have only been a handful of extended divergences, roughly seven. It might be worth discussing each of these briefly. The first began in May of **1920.** Over the ensuing six months the Rails (the Transports of those days) gained 4 points while Industrials (in a series of rallies and declines) lost 10 points. In late-November, 1920, the two Averages finally got in gear, and it was on the downside. The market smashed to a June low in 1921. From that low, the great 1921-29 bull market began.

The 1921-29 bull market ended as it began–with divergence in the Averages. In early February, **1929,** the two Averages parted company. Industrials headed up while Rails slid lower. In May (after a decline), the two Averages got together. They surged up to highs on September 3, and the rest is history. From the September 3 peaks, the market crashed. In retrospect, we might say that the earlier divergence of 1929 represented "informed distribution."

A period of dramatic divergence occurred between August-September, 1934 and January of 1935. Over that period the Industrials gained 19 points while Rails lost a point. This was followed by a decline into March, preparatory to a major bull market advance throughout 1935, 1936 and early 1937. It is evident here that the late-1934 divergence represented "informed accumulation."

The year **1948** produced a most interesting and confusing divergence. During May to July, Industrials turned toppy and weak while Rails surged steadily higher. The two Averages dropped sharply in mid-July, whereupon the situation reversed itself with Industrials rallying but forming lower tops. The whole technical "mess" ended in early-November when the market went into a violent 23-day smash. This was followed by a more polite decline to a bottom recorded on June 13, 1949. That low was the launching spot for the 1949-66 bull market, one of the greatest bull markets on record.

An important divergence occurred between January and July, **1957.** In that period Industrials gained 20 points, halting their rise at 520.77 on July 12. During the same period the Rails lost 4 points. This period was obviously accompanied by distribution. Following the divergence the market sold off heavily, with Industrials dropping 20% to an October low. Over the same period the Rail Average lost 38% of its value.

An extraordinary divergence appeared two years later, in **1959.** Industrials started up on July 10, 1959 at 663.56. By January 5, 1960 they were at 685.47 (that was six months later). Over the same period Rails dropped from 173.56 to 160.43. This dramatic divergence led to the 1960 market smash, a slide which took the Dow to 566.05 by October of that year.

The last extended divergence I will discuss began in April, **1972,** with the Dow at 968 and the Transports at 275. By early December the Dow had climbed to 1036 (gaining 68 points) while Transports had dropped to 240 (down 35 points). The

1972 divergence (lasting eight months) proved to be the prelude to the 1973-74 debacle, the worst crash since 1929.

What then can we say of periods which produce extended divergences in the Averages? We can say that extended periods of divergence represent areas of **intense** accumulation or distribution, and that they are usually followed by violent market movements. In most cases, the market tends to "wipe out" (either on the upside or the downside) the price movements which produced the areas of disharmony which we call divergences.

In general, extended divergent periods in the Averages represent areas in which there is **great disagreement** among investors as to the prevailing trend. Furthermore, the first concerted movements out of the divergence may not be in the direction which the market will follow during the years ahead. Thus, the 1920 drop (following the divergence) led to a great market bottom. The 1929 divergence was followed by a rush up to peaks that represented an historic bull market top.

The breakdown from the 1934-35 divergence was followed by the fabulous 1935-37 bull market rise. The 1957 and 1959 divergences both led the way to severe corrections in an ongoing bull market. When the corrections were over, the bull market was off and roaring again. Finally, the 1972 divergence ended with the late-1972 "upward explosion" and that in turn gave way to the 1973-74 smash.

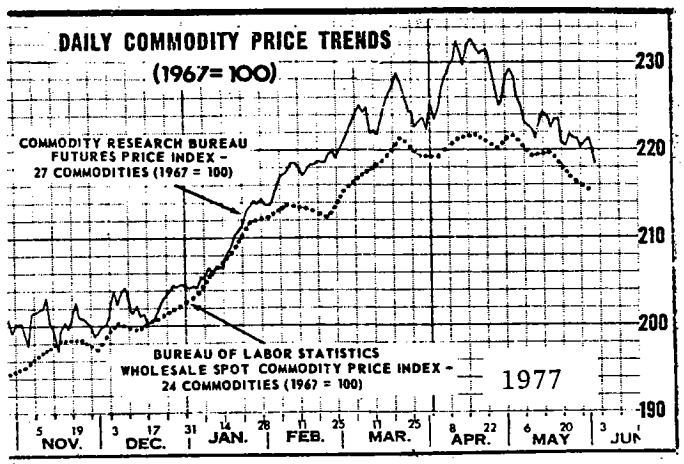
My own feeling is that the 1977 divergence could give way to a secondary correction that might well be severe. But I believe that following the secondary, the market could turn up and rather violently up at that. Should one attempt to "ride through" a correction that might stem from the 1977 divergence? My answer is that I want my subscribers to pay the cost of "insurance" and step aside. And that's what I've been saying and advocating for the past few months.

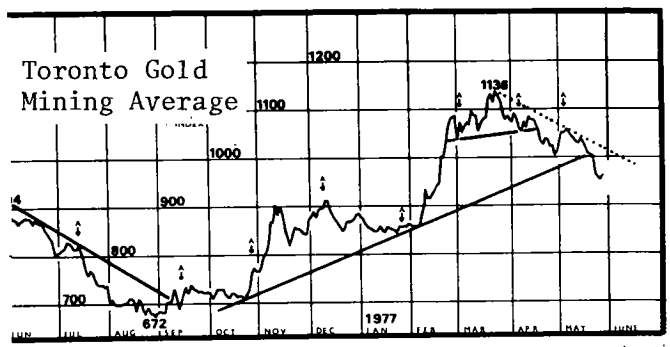
In conclusion, I want to say two more things about the extraordinary 1976-77 period of divergence in the Averages. The market in its own uncanny way often reflects what is happening in the business world. I have been writing about the forces of **deflation, which are now running headlong into the much older forces of inflation.** This inflation-deflation divergence is what now might be reflected in the puzzlement of the Averages.

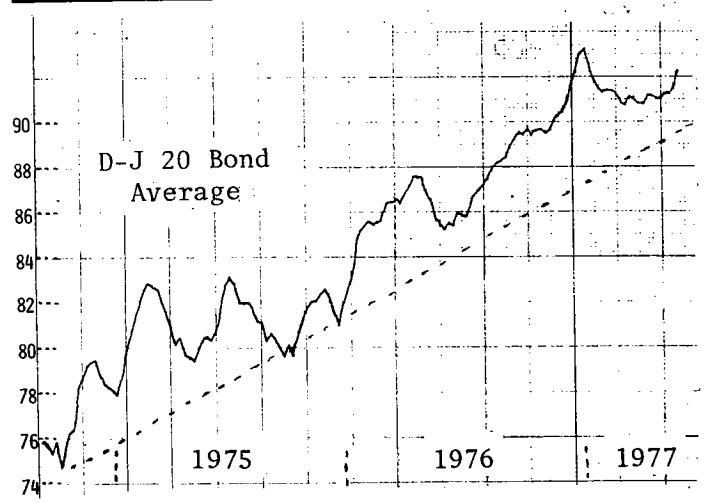
I feel that the current divergence in the Averages might also represent the final, confusing gasps of the market as it tops out and sinks into an equally confusing (but quite possibly severe) secondary reaction. But I continue to believe that this correction is against the primary trend, which remains bullish. It is crucial to keep a perspective on the big picture. And the big picture is still of a primary bull market **wrestling with mammoth problems** of debt, inflation-deflation, sagging corporate profits, international trade restrictions, just to mention a few.

SOMETHING NEW: I love charts. I love them because they tend to cut through all the talk, the hokum, the wishes and the theories. Charts tell you what is, with a hint (if a trend continues) of what may be. I think the three charts on this page tell an important story, a story that the stock market has much on its mind.

For many months I've been saying that we're at the stage of the great secular rise since 1932 where the forces of inflation are







starting to run into **forces of deflation.** Of course, no one under the age of 50 has ever seen deflation, so I might as well have been talking about little green men on Mars. But the charts see it, and I believe the market sees it, and the deflation story is presenting world governments with a tremendous problem. If they sit tight stagflation reigns (as it is now doing). If governments raise interest rates and cut back on the money supply, then deflationary forces become even more visible. If they open up the money-supply spigots to fight sluggish business, then inflation roars again.

For the time being, however, the forces of deflation are presenting themselves in certain key areas. The top chart shows the trend of a broad spectrum of *commodities.* Here we see a "head-and-shoulders" top and commodity prices coming DOWN. This new phenomenon hasn't reached the retail level yet, but it may very well do just that. The second chart (courtesy of *Deliberations*, PO Box 182, Adelaide St. Stn., Toronto, Canada M5C 2J1) shows the break in Canadian **gold** shares to a bear trend. This is a trend that reflects *lower bullion prices*, which in turn reflects the forces of deflation.

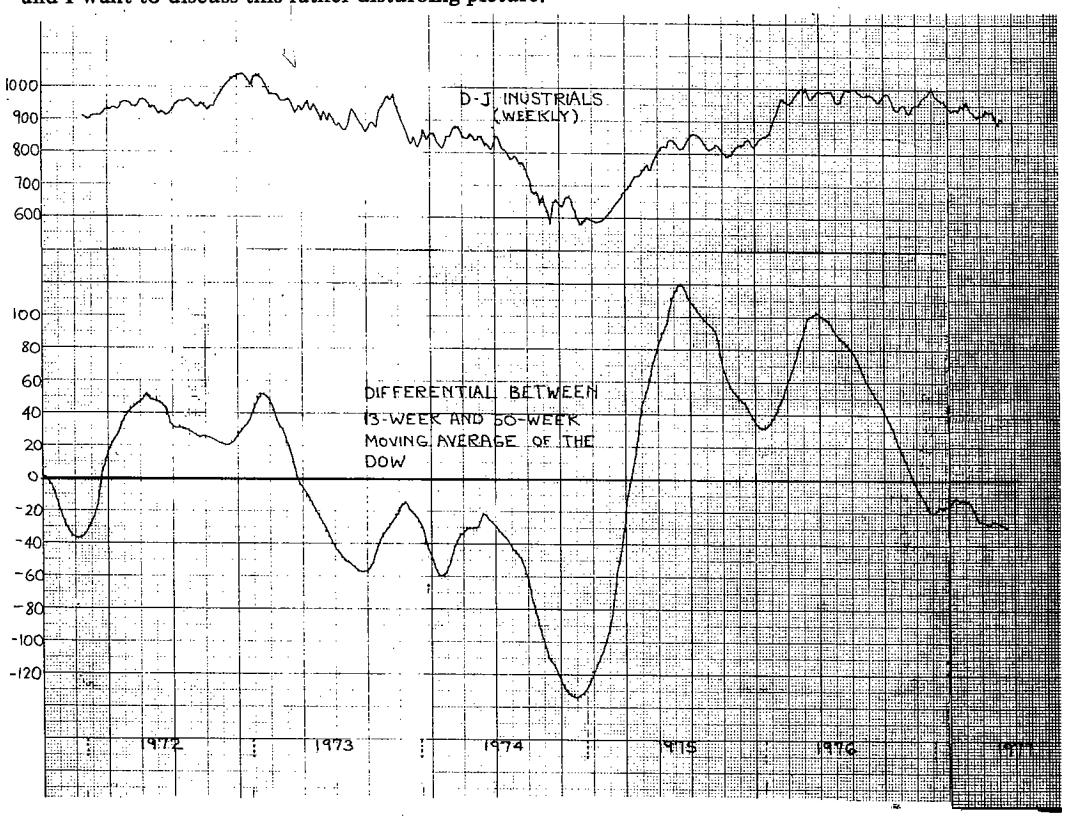
Finally, my chart of the D-J 20 Bond Average reflects the usually very sophisticated bond market opinion, and that opinion says that bonds remain in a bull trend, that bonds "are a buy," and that interest rates are headed **lower**. Since the Fed has been "tightening" the reins, it is clear that the bond market thinks the fundamentals are at variance with the Fed's actions. The bond market is saying that supply and demand is dictating lower interest rates; it's saying that the loan demand isn't there. And that is deflationary.

DOW TALK: I have been spending a good deal of time on technical analyses of the Dow Industrials. The reason is clear enough. Since September, it has been the Dow that has refused to confirm the strength in the various other indicators such as the Transports, Utilities, Bonds, PTI, A-D Ratio, etc. Consequently, I have stressed that if the rest of the market is unable to drag the Dow higher, then the Dow will pull the rest of the market lower. In other words, the action of the Dow during the period ahead will be critical.

I have used the study of the *three Dow moving averages* as a gauge of Dow strength or weakness. This study was last reviewed in Letter 697 (page 3). If you remember, major "buy signals" are given when the 13-week moving average (MA) of the Dow crosses above the 50-week MA. Conversely, major "sell signals" are provided when the 13-week MA of the Dow crosses below the 50-week MA.

To simplify the reading of these moving averages even further, I keep a separate chart showing the point spread between the 13 and 50 week MA's. When the 13 week is in the bullish position above the 50 week, then the differential line (see chart) is above the zero level. When the 13 week is in the bearish position below the 50-week, the differential line is below zero.

When the differential line (DL) is above zero and rising, the situation is very bullish since it means that the 13-week MA is bullishly above the 50-week MA and the spread between the two MA's is increasing (as the 13-week MA pulls away from the 50-week MA). But what we have now is the opposite situation and I want to discuss this rather disturbing picture.



The DL dropped below zero in November, 1976, as shown on the chart. This constituted a major sell signal on this study. I noted this in the Letters, but I stated that since I was giving the primary bull trend every benefit of the doubt, we should hold our selling in abeyance. By December the DL had dropped to minus 20. Over the next few months the DL line (hopefully, at the time) pushed up towards zero. But the rallying effort fizzled out. The DL never got above zero, and I wrote (Letter 688, page 1) that this study was beginning to worry me. I added that if the DL made a new low at minus 21 I would suggest taking out "insurance" against further stock weakness.

In Letter 697 I wrote that it seemed possible that the negative spread between the 13 and 50-week MA's was flattening, and that if this was, indeed, the case, it would be a hopeful sign. But alas, Wall Street pays little or no attention to the hopes and wishes of Richard Russell.

Last week, with the 50-week MA at a 1977 low of 958 and the 13-week MA at a 1977 low of 929, the negative differential widened to 29 points, the worst showing to date. As long as the DL line is below zero and sinking, the market situation will be unattractive for investors. My studies of the DL suggest that we "need" a plunge by the DL to an oversold position before the market will be ready to advance in any major way.

STAGFLATION VS. CRISIS: With commodities, gold and silver headed down, with interest rates heading down, the odds seem to be pointing towards a stagnant economy. "What happens if the third-world nations, the commodity-sellers, start to cave in due to a collapse in the price of their chief export item (i.e., commodities)?" Then we have troubles, super troubles, I retort. My feeling here is that as long as gold and silver go down with commodities, then all we are facing is economic sluggishness. Which means less pressure on interest rates and therefore a continuing big plus for the bond markets. The current dullness in US business, by the way, can be seen when we realize that business loans have only risen 3.8% over the last year!

The thing we have to watch out for is sliding commodities and prices in general–in the face of a big rise in the price of gold. To me, that would spell something very serious–possibly, a world credit crisis, severe deflation and the collapse of weak currencies. And that would be bad for stocks, bad for bonds, bad for everything except gold (Treasury bills would then constitute an island of safety along with gold).

My own opinion is that the problem is basically one of stagflation, brought on by (1) a public that is "spent up" and "tired out" from buying and buying–and I mean buying on credit; (2) business that is up to its neck in red tape and forms, while being buffeted by taxes, employee taxes, inventory taxes, state, city and government taxes, high wages and vicious competition that is getting tougher with each passing month. Ultimately, I believe Jimmy Carter and Washington are going to get the message. And the message is going to be, do what is needed to make business profitable. One place they can start is getting the Government out of business. I personally believe that we've reached the point where the only constructive thing Government can do is to get smaller. We're being eaten alive!

STOCK-BOND COMMENTS: For many decades the normal spread between stock yields and bond yields was "positive" in that stocks provided greater yields than bonds. The rationale was that bonds were "safer," they constituted a first call on the assets of a company. And therefore the safer instrument cost more (and yielded less).

Around 1958 this changed. Investors looked ahead, and they saw growth, they saw inflation, they saw an expanding America. And they decided that the real safety (as far as preservation of buying power was concerned) lay with common stocks Consequently, bond yields dropped under stock yields, and bonds became the "cheaper" or less desirable investment. This gave us the "negative yield spread," a spread in favor of bonds.

Since 1958 the negative yield spread has remained. At times it has climbed to well over 4% in favor of bonds. Everybody wanted stocks; consequently bonds went begging. During the 1974 smash, the negative yield spread dropped to well under 3%. Bonds were holding their own and stocks were collapsing (as stock yields were rising).

Last week the negative yield spread between the *Dow* yield and the yield on *Barron's High-Grade Bonds* sank to 2.85%, lowest spread since 1974. In my opinion, what we are seeing (at least up to this point in the second phase of this bull market) is discouragement with stocks and a growing interest in bonds.

Large investors, portfolio managers, pension fund managers, look back over the last dozen years, and they say to themselves, "I could have been in bonds the whole blasted time and done better than I did with stocks. I got nowhere on my Dow stocks and glamor stocks and I lost money on the rest. Who needs to sweat, ponder, analyze–and then lose money! My stocks never kept up with inflation, they never kept up with a damn thing. I'm out money over the last decade, and the total return on bonds would have put me ahead. Furthermore, I'm 'safe' with bonds, I'm prudent, I won't be called on the carpet for holding a doubtful investment."

So the fact is the investor psychology is changing–in favor of bonds. The concept of common stocks is pitted against the new, long capital gains holding period, constantly changing Government regulations, world problems, debt problems, unstable economies, the new pension laws, and the stock buyer sits down and wonders. If nothing else he mulls over the wisdom of loading up on common stocks as against a "balanced portfolio." And the negative yield spread in favor of common stocks shrinks. And that is where we are today.

PSYCHOLOGY: I often use movies as a barometer of where the public's mind is at any given time. When I say movies, I mean the "blockbuster" flicks, one's which are having a huge box-office impact. To be a whopper, a movie must hit a nerve in the public's unconscious, it must hit some unexpressed yearning or mass desire.

What's happening now is rather fascinating. Over the past few years we have been treated to an almost endless series of monster, catastrophe, horror and occult movies. In my opinion, these films tuned in to the average man's feeling of helplessness, horror and frustration at the collapse of his known values. Vietnam was a Government-sponsored atrocity, Watergate showed America what it was like to have a paranoid society in the White House, inflation has made men feel helpless as their savings and their earnings were relentlessly whittled away. In the grip of these forces, what was the average citizen to do? His very Government had turned against him, the IRS was frightening him, the CIA and the FBI were seen to be part of a plot, and even the local police were no reason for comfort (as witness, "Serpico").

In all these movies, the catastrophe, whether a burning building, a tidal wave, a child of the devil or a paranoid in the White House, the average man experienced himself as unable to do anything. He was frustrated and impotent. And so the ultimate escape has finally arrived. The entertainment that allows pure fantasy with nothing to think about, nothing to do. We are required to simply sit and be passive, to watch.

And so "Star Wars" bursts upon the US, breaking box office records. The movie is today's answer to Flash Gordon and Buck Rogers. There isn't a serious thought in the film. It's a child's garden of space fantasy, the 10 year old's "2001." Along with Star Wars comes its companion piece, the hit Broadway show, "Annie." This non-think affair is based on the "Little Orphan Annie" comic strip and is an infants-eye view of the Roosevelt Administration. Like Star Wars, Annie offers total fantasy without a thought or a scare in a carload.

All of which tells us something about where the US is now. Personally, I have the sinking feeling that Americans are not ready to do any serious thinking. But the scary thought that haunts me is that maybe, on some deep level, we have picked a "comic strip President," one who will somehow fit the mold of Annie and Star Wars. I have always felt that the people get the kind of President they want, the one who fits the national mood. Is Carter going to be a kind of "Captain Marvel," an impractical fantasy? That couldn't be, could it? I just read former Treasury Secretary Bill Simon's description of the Carter energy bill. It's on the editorial page of the June 10 *Wall Street Journal.* Read it and weep. The fact is that Simon is dead right, and Jimmy Carter is out in space along with the boys in Star Wars.

LATE NOTES: The bond market and the money markets in general continue to be very strong, despite the phoney boost in the prime rate. I say phoney because I don't feel business is good enough to warrant a prime rate boost. But the strong money conditions have been the major prop under the stock market for over a year. At this point I believe that the stock market is weighing a still very positive money outlook as opposed to a questionable business outlook. Corporations are raising their dividends, not because they are flush with profits but because the pressure is on (from stockholders) to push up their respective stocks.

Last time the market was "overbought" the Dow was at 941.91 (in May, see p.1 chart). The market is becoming overbought again with the Dow now even lower–in the 910-915 area. Let's sit tight with our conservative bond positions. Speaking of bonds, three closed-end bond funds (all traded on the NYSE) are attractive for buying now. All are selling at a discount from new asset values and all have good yields: **John Hancock Securities** (8.6% yield), **Pacific-American** (8.8% yield), **Excelsior** (8.6% yield). These bond funds are traded like any other stock. DTL has investments in all three funds.

UP' UP' AND AWAY: I am about to take my longest vacation since I started these reports in 1958. We'll be away 6 days to the Bermuda monetary conference. I will divide my time in three ways, (1) giving a speech before the Conference, (2) exploring the beaches of Bermuda with my wife, Paula, (3) trying to get Harry Schultz to enjoy food more (I never saw a man eat so little). At any rate, I'll have all my charts with me, and I'll keep them up-to-date. So the next Letter will be sent out on a two-week interval.

STAMPS: In Letter 697 I wrote a piece about postage stamps as an "alternate form of money." I should have said that much of the data in that piece came from my friend, Myron Kaller, an agent-dealer who has handled my own account for the past few years. I will see Myron in Bermuda, and in speaking to him yesterday he informs me that Dow Theory Letters subscribers who are interested may receive copies of his bulletin on rare stamps. Write to M. Kaller, PO Box 3153, Grand Central Stn., NYC 10017.

NEXT MAILING: June 29th